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Exercising Common Sense

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Exercising Common Sense

A 10-point checklist can help leaders of large-scale transformation put their wisdom into practice.

by Gary Neilson and Jack McGrath

During our nearly 70 combined years of consulting, we have worked, together and separately, with more than 50 organizations involved in large-scale transformation. These are generally companies that need to accomplish something they've never done before: enter new markets, grow in unprecedented ways, reorganize a debilitating structure, recover from a dramatic upheaval in their industry, or recover from their own unfortunate errors. Some of these companies achieve extraordinary results once they begin to transform themselves; others stumble. And for all their diversity, we see patterns of consistency among them — both in successful transformations and in the mistakes that often undermine such efforts.

We think our clients know this too. Most of the leaders we work with, after all, are experienced corporate practitioners. Like everyone else with a long career in business, they've been through their share of corporate changes. (Many of them, earlier in their careers, endured transformations that didn't succeed.) They know that success is rarely a matter of applying the latest breakthrough techniques or jargon-laden formulas. Successful transformation requires the common sense of experienced management. Unfortunately, the ability to apply that common sense, especially over the long time frame of a serious change in organizational culture, is all too rare.

Why is it so difficult to keep a sharp focus on the basic priorities that any CEO knows are important? We think the uncertainty of the process itself is part of the reason. Any transformation aimed at altering an organization's basic way of operating disrupts business as usual and requires individuals to change long-established behaviors — starting at the top of the organization, with the CEO. This in turn requires everyone else to make a collective leap of faith. They must adjust their habits and adopt new structures, working practices, and guidelines — whether developing new targeted customer groups or implementing new types of performance metrics — while recognizing that the outcome of these efforts cannot be fully known in advance. The imperative

Illustration by Lars Leetaru

to start a journey of transformation may be pressing, and specific targets may be clear, but the way the journey will unfold is unknown.

This uncertainty means that contradictory messages will filter back to the top leadership from within, even when the case for change, driven by market forces and competitors, is clear. The message "We are making real progress!" will come up, but so will frantic cries that "Our marketing efforts are failing!" and "We can't work this way!" To make the journey of transformation, leaders must have the confidence — and the humility — to send people forward, even though the particulars of where they are going are not known.

Every successful large-scale change we have worked on has gone through such a period of uncertainty and come out the other end. Organizations that fail to achieve large-scale change usually falter in several predictable ways. In our experience, a CEO needs to keep in mind at least 10 critical factors. For each of these factors, there are one or two typical mistakes that CEOs make that can be easily avoided. And that in turn can make all the difference.

Prerequisites for Success

Although many readers are likely to think, "I've heard this before," there's a reason these 10 factors keep coming back as prerequisites for success. They're as vital as common sense suggests they should be. But it takes a lot of uncommon concentration and awareness to put all of them into practice.

1. The CEO makes a strong case for change by clearly and persuasively articulating the factors that are driving it. Most people in organizations understand that today's highly competitive global marketplace shapes business in unpredictable and often punishing ways. As a result, stakeholders will support large-scale change if they are truly convinced that such change is essential. But for this to happen, the CEO must personally make the case, starting with a compelling analysis of the business climate that makes it bracingly clear why the organization must embark upon radical change.

As one CEO we worked with said, "If you're the leader, you've got to define the problem, no matter how brutal, and you've got to use honest and unambiguous language. Your staff can't do it. Only you can tell people about the reality you are facing. If you don't, they'll never accept it."

This analysis must be "market-backed": It must demonstrate a clear connection with the needs of the customers who keep the operation in business, and it must accurately depict the competitors who are trying to take customers away. The analysis must be forward-looking as well, providing a compelling picture of what the organization can become in the future. Details do not need to be mapped out, but the magnitude of the challenge must be made clear, and the commitment to a new aspiration must remain unswerving as the particulars develop. The CEO must maintain a sense of urgency by continuing to press and elaborate on the case for change throughout its implementation.

The classic mistake we see at this stage occurs when the CEO is reluctant to make the case because he or she hasn't hammered out all the details. Even with a "burning platform" (a clear and credible pic-

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ture of the dire fate that looms if the organization doesn't change), leaders are often unwilling to present a plan that does not feel fully "baked." Yet not only is a detailed road map unnecessary at the start, it can actually be counterproductive. The presentation of too much detail gets people focused on particulars rather than on the larger purpose, which is nothing less than a new way of operating in the world. In addition, even if it were possible to offer a fleshed-out plan, doing so would leave no room for people to participate in its development, which is vital both for getting fresh ideas and for ensuring that people feel committed to the outcome.

2. Senior leaders set an aggressive, enterprise-wide target. Big goals are the key to driving big actions. An audacious, market-mandated target ("we have to get US$1 billion out of the cost of this enterprise or we'll lose out to the low-cost provider within two years") sends the message that transformation is not a matter of incremental changes, like trimming finance or putting HR on a diet. It will require a fundamental rethinking of current priorities, market position, and strategic intent.

Targets must push beyond the parameters of business-as-usual while remaining firmly tied to the business case.

Aggressive targets may seem brutal, but an incremental approach is rarely effective and often ends up inflicting greater pain. Small-bore targets enable people to deny the extent of the peril facing the organization while inadvertently encouraging them to find ways to exempt their unit or division from the overall effort. This waters down goals and pits business units against one another, inspiring cynicism and fomenting rivalries.

Facing that kind of evasive, passive-aggressive opposition, leaders are often tempted to say, "Well, if we can't get $1 billion out, we'll settle for $900 million," and that in turn sends the message that the target is not an up-front, market-backed imperative but rather an arbitrary number subject to dispute. Once people start quibbling about the details of the targets, the company has started down a slippery slope of indecision, and it's extremely difficult to regain the momentum.

Another common mistake we see in this area occurs when leaders feel they need to verify their analysis of stated targets and wait for additional data or details before moving forward. Such an approach encourages bottom-up analysis based on tactical targets, rather than supporting an integrated set of initiatives that connects business units, functions, and geographies. If an economic analysis of enterprise-wide targets is needed, it must be conceived firmly and convincingly at the top, and continually articulated, delivered, and enforced by the leadership. In other words, the leadership must present the kind of rationale for change that forces people to think *big*.

3. Senior management is firmly aligned. The CEO of a transforming organization is responsible for bringing the top levels of management on board in strong support of both the targets articulated and the reasoning behind them. Every individual on the leadership team needs to have a stake in the transformation effort as a whole, rather than focusing only on the piece related to his or her business or function. As one CEO said, "Everyone has to own the problem, even if they don't like doing so. They've got to understand it, believe it, suck it up, and move ahead."

Leadership must present the kind of rationale for change that forces people to think *big*.

This particular leader brought his senior team together on a retreat, laid out the case for change, and then asked each one of them to put into words exactly why he or she was personally committed to the transformation. By requiring them all to thoughtfully articulate ownership, and to publicly claim the case, he was able to create genuine alignment in a difficult situation.

Senior team alignment often requires moving people out of traditional silos, at least temporarily, so they can get away from their focus on day-to-day execution. Incentives must also be put in place that give team leaders a clear stake in the change effort's collective success. Financial incentives are necessary, but they are not enough. One client we worked with put the executive who was most skeptical about shared services in charge of the initiative, visibly identifying her with it and so forcing her to wear the company hat instead of the mantle of her division.

Such highly public efforts serve the purpose well, but the CEO must also deal privately with senior executives who are reluctant to embrace the effort. As one leader noted, “You never get everyone on board right away, but you’ve got to make some calls and get things sorted out.” Don’t hang skeptics publicly; bring them in for a one-on-one fireside chat to let them know that the transformation is not going away. It’s important to remember that squeaky wheels or complainers tend to be people who care deeply about the organization. Securing their alignment for the collective journey is worth the effort because, when they see the light, they often become the most effective and passionate advocates for change.

Recognizing Relevance

We sometimes observe senior leaders making the mistake of presenting transformation as a corporate project, without explicitly laying out why it is integral to the success of individual business units, geographies, and functions. Hearing this, midlevel team members remain focused on meeting their quarterly or annual goals and running their businesses. This focus undermines the transformation effort. If people in the decentralized parts of the organization are expected to look beyond their daily concerns and focus on the future of the organization as a whole, they need to recognize the relevance of the new initiative to them personally.

4. An integrated enterprise-wide program for change is put in place. Cross-functional business solutions enable people to live out the new business model instead of remaining locked in the concerns of their day-to-day responsibilities. To achieve this, the organization has to mix things up, putting a finance person in charge of new footprints, assigning a sales representative or plant manager to a product launch team, pulling a legal person over into a marketing project, or creating one common functional solution across several businesses. This kind of mixing up is not the same as creating a formal matrix, which implies a hardwired structure, but rather identifying people who can take collective ownership of the transformation effort and putting them physically together with others in temporary working groups — especially when two or more traditional silos are involved in rethinking a common endeavor.

Cross-organizational teams should be aggressively recruited, and participation presented as an upward career move. One client we worked with, the chief executive officer of a 100,000-person organization, asked managers to submit a one-page description of why they should be part of the team that supported the transformation. The fax machines were whirring all night. The program leaders received 1,400 applications for fewer than 100 team positions. People were jockeying to participate rather than keeping their heads down because they recognized the reality of this new world; they understood that

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being part of the effort meant becoming more relevant to the organization's future.

Providing forums for senior leaders and transformation sponsors to talk honestly about what's working — and what's not — gives them an opportunity to get involved in the process. As one CEO noted, "You need to have real debates. Good teams fight and argue about how to do things." Frank and fearless discussion also helps the organization identify under-the-radar stumbling blocks as they arise.

The characteristic mistake we see in this domain occurs when senior leaders in functions or business units continue to focus primarily on running their business, delegating the transformation effort to someone lower in their organization. An enterprise-wide transformation that alters the business model and the operations of the organization requires integrated teams whose work together lasts throughout the duration of the journey. Line managers who delegate the transformation but who don't visibly take part in those cross-functional teams are not providing the full ownership that the initiative requires.

5. Senior leaders focus on augmenting capabilities along with cutting costs. The prospect of working to create a better future is highly motivating for most employees, whereas the prospect of cutting costs is not. As a result, efforts to massively change the cost structure of an organization must always be set within the positive context of building new skills. The bottom-line part of the change equation can be clearly quantified, which is one reason many senior leaders emphasize it. But articulating a commitment to building new capabilities is equally important and provides a much greater incentive for people to support change.

One of our clients was particularly clear about laying out the capabilities that the company would need to move forward: nontraditional marketing expertise, capacity for managing outsourcing, and brand focus. By articulating these skills and connecting them to the larger strategic vision, he was able to convince employees that the transformation offered them a chance to build their experience and skills while also setting a new course for revenue growth. This helped people understand what the changes would offer them personally in terms of learning, growth, and a stronger personal platform.

Sharing "moments of truth" enables an organization to convince everyone of its commitment to change.

Starting with Capabilities

One typical mistake occurs when senior leaders focus first on cost reduction, deferring capability building to a later stage. They often believe that once the cost cutting is complete, they'll have the time and energy to focus on everything else. But step-change transformation is not possible without new capabilities. And if those new capabilities aren't articulated from the start, and a plan for their development is not put in place, the slimmed-down company will not be transformed. An organization that fails to develop a positive and forward-looking future vision is likely to shrink under the pressure of simply cutting costs.

6. "Moments of truth" are recognized and shared in order to demonstrate commitment. A "moment of truth" is a revelatory incident or event, either deliberately engineered or recognized when it occurs, that highlights precisely what needs to change in an organization. These often originate with executive leaders and later cascade down through layers of the organization via retelling of the story. For one CEO, the moment came at a meeting when the transformation team unveiled its first progress report. It was focused on cutting capabilities as a corollary to cutting costs. The CEO (as he later recalled it) suddenly saw that this solution would drain the organization of the very skills it needed to survive the change intact. "Wait a minute," he said. "I thought our strategy was to do *more* with less, not less with less."

That particular executive had never made a statement like this before. In the wake of that moment, the senior team was able to make a rapid course correction that filtered out to the rest of the organization. Such moments of truth are most powerful when they shatter taboos by acknowledging the proverbial elephant in the room.

Not every moment of truth requires a CEO to be the lead character. But all such moments have one thing in common: People step back and register some aspect of the business that has been unobserved to date and that is holding them back. One leadership team chose to draw attention to a flagrant example of "passing the buck" in a culture that had a long tradition of quietly tolerating the practice. The team made a big theatrical deal out of buck-passing. They announced an event called "the New Day," in which the company ceremonially conferred "amnesty" on people who had passed the buck in the past, while formally decreeing that this wouldn't happen in the future. The company-wide scale of this message, and the link to a previously "undiscussable" cultural habit, sent a powerful message about the organization's commitment to transformation. Over the next few months, as senior leadership made a point of avoiding buck-passing in their own day-to-day work, it created trust and provided forward momentum.

Appropriate Communication

The mistake we often see at this juncture occurs when senior management misses the chance to bring a potential moment of truth to everyone's attention, or sweeps an incongruity that everyone is aware of under the rug. Their rationale is usually an aversion to focusing on perceived failures or a fear of setting expectations too high. But sharing moments of truth in reality enables an organization to reset expectations and to convince people throughout the organization that the commitment to change is serious.

7. A detailed plan provides the blueprint. After senior leadership identifies targets and articulates a comprehensive vision for the future, leaders must start the work of developing a comprehensive guide to the changes ahead. This blueprint specifies the steps that will enable the organization to meet its targets, sets aggressive yet achievable timelines, addresses the change management issues that occur at every stage, and identifies new roles for people throughout the organization without getting too tied up in trying to detail the management chart.

Although the plan is supported, coordinated, and enforced at the senior level, it is not designed there. Details should be developed and executed in business units cross-linked to the transformation team. The purpose is to chart the course of change so clearly that managers will say of their own accord, "I get it! I *see* how we can pull $200 million out of our costs this fiscal year while improving our capabilities and extending our market reach!"

One mistake we see at this later stage is a shortage of details for the design and execution of the transformation. Organizations often try to skip directly from articulating the overall vision to rolling it out without doing the painful intermediate work. Cultures with a "Just do it!" work ethic (in which speedy execution is prized over quality) are particularly at risk, because they tend to equate a capacity to focus attention on details with nitpicking. Patience, persistence, and a realistic but aggressive attitude about highly specific timelines are all key to creating a map that keeps large-scale change on course.

8. Enabling triggers are built in from the start. The detailed map for the transformation should identify in advance triggering events that will clearly be important in moving the process of change forward. For example, one of our clients stopped budgeting for a number of smaller, declining brands; logic suggested they would have to be eliminated later. Subsequently, when the changes were announced, the difficult work of shutting down these product lines had already begun and there was more time to design the implementation. At another company we worked with, redundant staff were encouraged to take early retirement before the change initiative was formally announced; when the work streams were cut, the people who had been doing those jobs were already gone. Building in these kinds of advance measures helps ensure that transformation timelines will be met. Timing departures ahead of making overall cuts in functions also minimizes the shock to the company. The focus of employees is shifted from feeling the loss to adapting to the new approach.

Creating the right kind of balance in this maneuver will call on all the judgment and skill that leaders have. They must be careful not to implement changes too early, and to balance the multiple needs of a company in flux. If the organization is initially forced to operate without

Leaders often focus too early on the future organizational structure, fiddling with the chart before it's necessary.

key resources, it will compound stress and confusion. Premature personnel departures can also stir a sense of anger throughout the organization and deprive employees of the chance to see firsthand how these departures actually serve to augment capabilities and ensure strategic change.

Another mistake we see in this domain occurs when leaders focus too much and too early on the future organizational structure, filling in boxes and fiddling with the organization chart well before it's necessary. New leaders are then apt to begin operating in their new roles and lose their focus on the details necessary to execute the transformation. In addition, poor timing creates needless chaos and undermines people's commitment to even the most powerfully articulated vision of the future.

9. Communication is proactive and ongoing. Skillful internal and external communication linked to a strategic vision is essential to large-scale change. Internal communications should be blunt and realistic about the market imperative driving transformation. They should be consistent throughout the enterprise, but should also be flexible enough to address the concerns of specific businesses and functions.

Such communications, too, must reflect the leadership's understanding that the most important internal audience for its message will be the survivors. And in a networked environment in which e-mail communication is common and forwarding messages is easy, communications must be written with the awareness that any of them could instantly be leaked to analysts, reporters, or the blogosphere.

External communications to Wall Street analysts, governing structures, and the board must not only be consistent with the transformation's goals, they must be proactive and aimed at aligning these key constituents with the goals of the transformation. Sometimes, approaching analysts early with a strong market-based rationale is extremely effective in getting investors to support changes in strategic operations. Communications to the board must frame every objective within the larger strategic vision and new operating model. As noted by one CEO who skillfully built support for radical transformation, "If you want to motivate people to do something big, you must use clear language. People deal with reality better than with ambiguity."

Making Change Permanent

The most common mistake we see here occurs when leaders wait too long before communicating the logic behind the transformation strategy. This usually happens because leaders fear not having all the answers or because they believe they need to create a detailed plan in advance of announcing their intentions. But waiting too long dilutes urgency, and undermines the tie to the market-based case for change. Waiting too long also creates a chance for rumors to grow rampant, putting senior managers in the position of responding to their environment rather than leading it.

10. The results of change are sustained. Transformation is as much a way to change behaviors and practices as to reconfigure costs and strategy. New capabilities for achieving accountability, distributing benefits, allocating incentives, and tracking results must therefore remain in place even after financial targets are met.

But vigilance is required to keep people from slipping back into old habits, as anyone who has successfully lost weight can attest. So leaders must continue to make sure that new capabilities don't require continual resource additions after the transformation or undermine the results that have been achieved. The program office for transformation should not be dismantled too soon, and the ongoing organizational structures, budgets, and incentives should reflect the new imperatives.

The most frequent mistake we see in this phase occurs when leadership declares victory too early and then fails to follow through on signals that some businesses have implemented the staffing changes but are reverting to past practices. Continued scrutiny is required if an organization is to resist the temptation to fall back into habits that have been part of the company's operating culture for decades.

All 10 of these transformation success factors are, as we've said, well known. You'll find them in the business literature. More important, you'll find them in the consciousness of veteran executives, the artists of turnarounds and transformations. Achieving long-term results requires a sustained and focused leadership that transcends management formulas. The leaders who realize success tend to be uncommonly disciplined — not just in the way they lead others, but in the way they govern themselves.+

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